

**RADFORD UNIVERSITY
RADFORD, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



AUDIT SUMMARY

Our audit of Radford University for the year ended June 30, 2003, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be material weaknesses;
- no instances of noncompliance required to be reported; and
- adequate corrective action of prior audit findings.

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

April 9, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Vice Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Radford University

We have audited the accounts and records of **Radford University** as of and for the year ended June 30, 2003, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Radford University, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Radford University as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages four through twelve is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of

management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Radford University. The Schedule of Auxiliary Enterprises Revenues, Expenditures, and Changes in Fund Balances is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Schedule of Auxiliary Enterprises Revenue, Expenditures, and Changes in Fund Balances has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Radford University as of and for the year ended June 30, 2003, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

The "Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of

Visitors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 30, 2004.

AUDITOR OF PUBLIC ACCOUNTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS "UNAUDITED"

INTRODUCTION

The following unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. The MD&A provides an overview of the financial activities of Radford University (RU) in an objective, easily readable format for the year ending June 30, 2003. Since this analysis includes highly summarized data, it should be read in conjunction with the accompanying financial statements, footnotes, and other supplementary information. The University's management is responsible for all the financial information presented, including the discussion and analysis.

During fiscal year 2002, the university adopted GASB Statement Number 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by subsequent GASB Statement Numbers 37 and 38. Accordingly, the university's financial statements differ significantly in form, content and accounting principles utilized, from those of prior years. Previously, the financial statements focused on accounting for resources received and used rather than the determination of net income.

The three required financial statements are the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements are summarized and analyzed in the following paragraphs.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the assets, liabilities, and net assets of the university as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the university's financial position to the readers of the financial statements.

The data presented in the Statement of Net Assets aids readers in determining the assets available to continue the operations of the university. It also allows readers to determine how much the university owes to vendors. Finally, the Statement of Net Assets provides a picture of net assets and the availability for expenditure by the university. Sustained increases in net assets over time are one indicator of the financial stability of an organization.

Net assets are classified into three major categories: invested in capital assets, restricted net assets, and unrestricted net assets.

- Invested in capital assets – Invested in capital assets, net of related debt represents the university's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.
- Restricted net assets - Expendable – Restricted expendable net assets include resources the university is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.

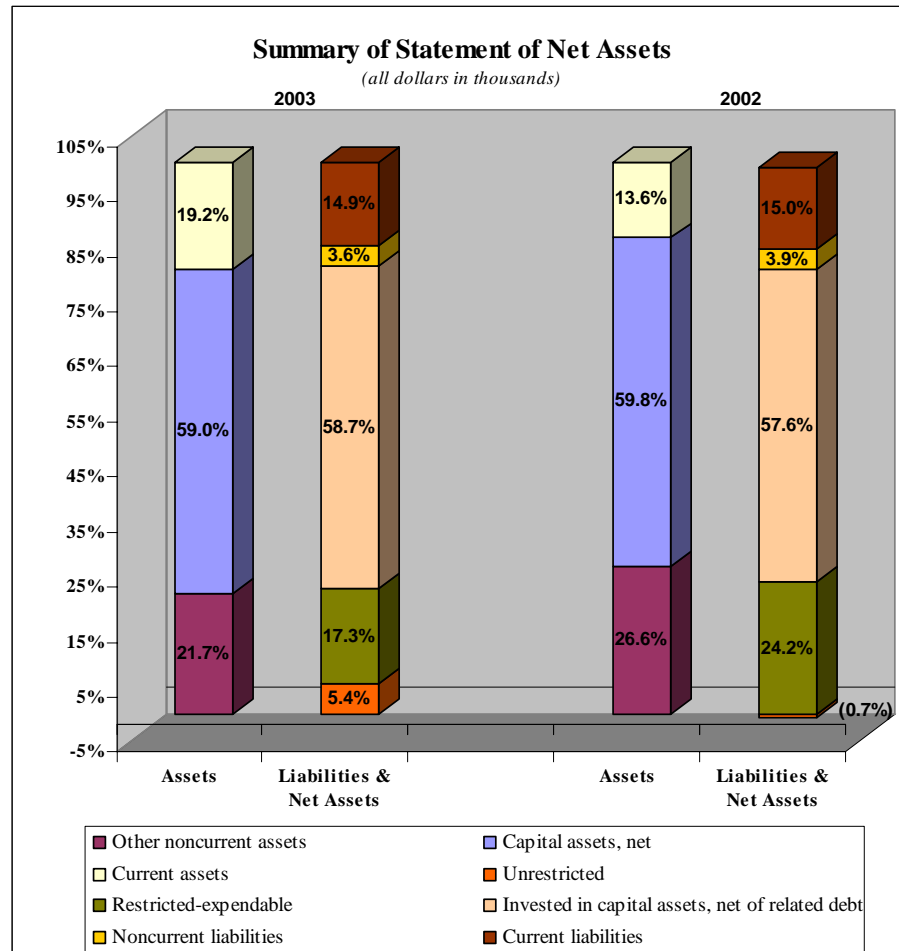
- Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, indirect costs, and sales and services of auxiliary enterprises and educational departments. These resources are used for transactions relating to academic departments and general operations of the university and may be used at the discretion of the university to meet current expenses for any lawful purpose in support of its primary mission of instruction. These resources also include auxiliary enterprises and providing services for students, faculty, and staff. Examples of the University's auxiliaries include residence halls, dining services and intercollegiate athletics.

Statement Of Net Assets

For the years ending June 30, 2003-2002
(all dollars in thousands)

	<u>2003</u>	<u>2002</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Assets:				
Current assets	\$ 24,663	\$ 16,701	\$ 7,962	47.7%
Capital assets, net	75,759	73,396	2,363	3.2%
Other noncurrent assets	<u>27,896</u>	<u>32,728</u>	<u>(4,832)</u>	(14.8%)
Total assets	<u>128,318</u>	<u>122,825</u>	<u>3,454</u>	4.5%
Liabilities:				
Current liabilities	19,177	17,783	1,394	7.8%
Noncurrent liabilities	<u>4,633</u>	<u>4,629</u>	<u>4</u>	0.1%
Total liabilities	<u>23,810</u>	<u>22,412</u>	<u>(641)</u>	6.2%
Net Assets:				
Invested in capital assets, net of related debt	75,374	68,200	7,174	10.5%
Restricted-expendable	22,189	28,664	(6,475)	(22.6%)
Unrestricted	<u>6,945</u>	<u>(897)</u>	<u>7,842</u>	874.2%
Total Net Assets	<u>\$ 104,508</u>	<u>\$ 95,967</u>	<u>\$ 8,541</u>	8.9%

The total net assets of the university increased by \$8,541,086 or 8.9 percent during fiscal year 2003, bringing total net assets to \$104,507,879 at year-end. This growth was due largely to increased tuition, fees, room and board rates for 2003. The increase in tuition and fees led to an increase in student accounts receivable and Perkins loans receivable of \$461,353 over fiscal year 2002. Additionally, noncurrent assets, such as state appropriations, are used to construct and purchase capital assets. Therefore, \$7,174,119 of this increase is due to the increase in capital assets. The increase in unrestricted net assets is the result of leaving funds in the auxiliary operating reserve traditionally moved for capital improvements.



CAPITAL ASSET AND DEBT ADMINISTRATION

One of the critical factors in continuing the university's mission is the development and renewal of its capital assets. The university continues to implement its long-range plan to modernize its older facilities, balanced with new construction. Investments in renovating and constructing new facilities serve to facilitate our high-quality instructional programs, residential lifestyles, and student quality of life.

Note 4 of the Notes to Financial Statements describes the university's investment in capital assets with total additions of \$7,206,513 (including Construction in Progress) during fiscal year 2003. The renovation of Peters Hall was the primary component of the additions in the Construction in Progress category. Current year depreciation expense was \$4,651,448 and net retirements of capital assets totaled \$396,682. Overall, the value of the university's capital assets totaled \$75,759,716 at the end of fiscal year 2003.

Commitments to construction contractors, architects and engineers for capital projects totaled \$4,671,337 at June 30, 2003. Several renovation projects constituted most of this total: Peters Hall, Walker Hall, Peery Hall, and East Main Street Safety.

The University takes seriously its role of financial stewardship and works hard to manage its resources effectively, including the prudent use of debt to finance capital projects. The University decreased its total long-term debt from \$728,634 in fiscal year 2002 to \$372,672 in fiscal year 2003. Note 7 of the Notes to Financial Statements describes the refinancing of the Series 1993B bond to provide debt service savings to the university of \$14,938. The refinanced Norwood Hall Dormitory bond will be completely retired in 2006.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's operating and non-operating activities which create the changes in total net assets. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investments and capital assets.

Generally, operating revenues are received for providing goods and services to students and various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for operating revenues, and to carry out the mission of the University. Salaries and fringe benefits for faculty and staff are the largest type of operating expense.

Non-operating revenues are revenues received for goods and services that are not directly provided. State appropriations are included in this category, but provide substantial support for paying the operating expenses of the University. Therefore, the University, like most public institutions, will expect to show an operating loss.

Statement Of Revenues, Expenses, And Changes In Net Assets

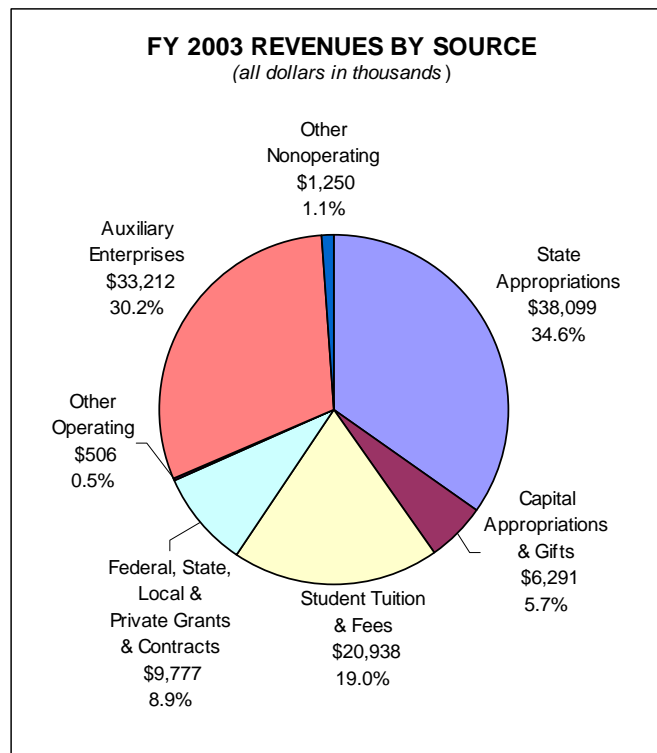
For the year ending June 30, 2003-2002

(all dollars in thousands)

			Increase/Decrease	
	2003	2002	Amount	Percent
Operating revenues	\$ 64,432	\$ 61,956	\$ 2,476	4.0%
Operating expenses	<u>100,631</u>	<u>97,609</u>	<u>3,022</u>	3.1%
Operating loss	(36,199)	(35,653)	(546)	1.5%
Non-operating revenues and expenses	<u>38,449</u>	<u>42,686</u>	<u>(4,237)</u>	(9.9%)
Income before other revenues, expenses, gains or losses	2,250	7,033	(4,783)	(68.0%)
Other revenues	<u>6,291</u>	<u>5,886</u>	<u>405</u>	6.9%
Increase in net assets	<u>8,541</u>	<u>12,919</u>	<u>(4,378)</u>	(33.9%)
Net assets - beginning of year	<u>95,967</u>	<u>83,048</u>	<u>12,919</u>	15.6%
Net assets - end of year	<u>\$ 104,508</u>	<u>\$ 95,967</u>	<u>\$ 4,095</u>	8.9%

The following is a graphic illustration of revenues by source (both operating and non-operating) used to fund the University's activities for the year ended June 30, 2003. Critical recurring sources of the

university's revenues are considered non-operating, as defined by GASB Statement Number 35. These sources are presented as state and capital appropriations and other non-operating on the graph below.



The table below shows revenue trends over the past two fiscal years.

Increase (Decrease) In Revenues
For years ended June 30, 2003-2002
(all dollars in thousands)

	2003	2002	Increase/Decrease	
			Amount	Percent
Operating Revenues:				
Student tuition and fees, net of scholarship allowance	\$ 20,937	\$ 19,769	\$ 1,168	5.9%
Federal, state, and nongovernmental grants and contracts	9,777	9,460	317	3.4%
Auxiliary enterprises, net of scholarship allowance	33,212	31,948	1,264	4.0%
Other operating revenue	506	779	(273)	(35.0%)
Total operating revenue	64,432	61,956	2,476	4.0%
Non-Operating Revenues (Expenses):				
State appropriations	38,099	41,636	(3,537)	(8.5%)
Investment income, interest on capital assets – related debt, loss on disposal of plant assets, and other non-operating expenses	349	1,050	(701)	(66.8%)
Total non-operating revenues (expenses)	38,448	42,686	(4,238)	(9.9%)

Capital Revenues, Gains (Losses):

Capital appropriations	5,460	4,673	787	16.8%
Capital gifts	<u>831</u>	<u>1,213</u>	<u>(382)</u>	(31.5%)
Total capital revenues, gains (losses)	<u>6,291</u>	<u>5,886</u>	<u>405</u>	6.9%
Total revenue	<u>\$109,171</u>	<u>\$110,528</u>	<u>\$ (1,357)</u>	(1.2%)

OPERATING REVENUES

Operating revenues primarily include tuition, fees, and auxiliary enterprises. Total operating revenues increased by \$2,476,153 or 4 percent from the prior fiscal year. Student tuition and fees, net of scholarship allowances, also increased by \$1,168,907 or 5.9 percent in fiscal year 2003. Most of this growth can be attributed to a nine percent increase in tuition and fees in Fall 2002 along with a mid-year increase in tuition of \$250 per student in Spring 2003. Overall, the university's operating revenue increased to \$64,432,421 in fiscal year 2003, compared to \$61,956,268 in fiscal year 2002.

NON-OPERATING REVENUES

Non-operating income decreased by \$4,237,022 from the previous year's total. Due to the recent recession and its impact on state tax revenues, the University's legislative appropriations were reduced by approximately \$3,537,000 in fiscal year 2003 which reflects state imposed general fund reductions of 8.5 percent as compared to fiscal year 2002 general fund appropriations.

OTHER REVENUES

Other revenues, mainly represented by capital appropriations, increased by \$404,568 or 6.9 percent from the prior fiscal year. Total revenues increased at a rate greater than total expenses, resulting in an increase to net assets of \$4,094,645 in fiscal year 2003 which overall strengthened the university's financial position.

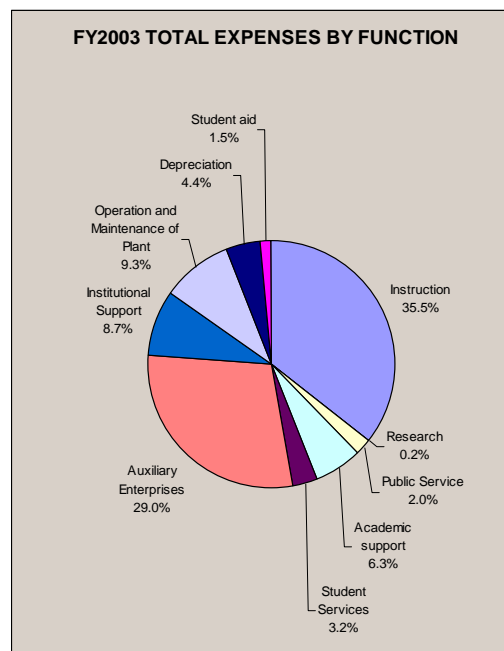
TOTAL OPERATING EXPENSES

Statewide economic uncertainty resulted in significant reductions of state appropriations to the University. This forced the University to implement strategic and short-term cost containment measures. Short-term measures included reductions in discretionary spending, such as travel, the purchase of supplies and equipment, and other items. Strategic measures included programmatic changes and workforce reductions. Operating expenses for fiscal years 2003 totaled \$100,631,208, up 3.1 percent over fiscal year 2002.

Increase (Decrease) In Operating Expenses
For years ended June 30, 2003-2002
(all dollars in thousands)

	<u>2003</u>	<u>2002</u>	<u>Increase/Decrease</u> <u>Amount</u>	<u>Percent</u>
Operating Expenses:				
Instruction	\$ 37,326	35,890	\$ 1,436	4.0%
Research	167	301	(134)	(44.5%)
Public service	2,073	2,008	65	3.2%
Academic support	6,633	6,076	557	9.2%
Student services	3,353	4,011	(658)	(16.4%)
Institutional support	9,156	9,768	(612)	(6.3%)
Operation and maintenance of plant	5,308	6,245	(937)	(15.0%)
Depreciation	4,651	4,443	208	4.7%
Student aid	1,533	1,706	(173)	(10.1%)
Auxiliary enterprises	<u>30,430</u>	<u>27,161</u>	<u>3,269</u>	<u>12.0%</u>
Total operating expenses	<u>\$100,631</u>	<u>\$97,609</u>	<u>\$ 7,468</u>	3.1%

The following graphic illustration presents total expenses for fiscal year 2003 by function.



STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents detailed information about the cash activity of the university during the year. Cash flows from operating activities will always be different from the operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets. This difference occurs because the Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting and includes non-cash items, such as depreciation expense, while the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows should help readers

assess the ability of an institution to generate cash flows necessary to meet obligations and evaluate its potential for additional financing.

The Statement of Cash Flows is divided into four sections: cash flows from operating activities, cash flows from non-capital financing activities, cash flows from capital and related financing activities, and interest on investments.

Summary Of Cash Flows
For year ended June 30, 2003
(all dollars in thousands)

Net cash used by operating activities	\$ (32,439)
Net cash provided by non-capital financing activities	37,409
Net cash used by capital financing activities	210
Net cash provided by investing activities	<u>1,010</u>
Net increase in cash	<u>6,190</u>
Cash and cash equivalents - beginning of year	<u>36,677</u>
Cash and cash equivalents - end of year	<u>\$ 42,867</u>

The first section, Net Cash Used by Operating Activities, deals with operating cash flows and shows the net cash used by the operating activities of the University.

Net Cash Provided by Non-capital Financing Activities section is second. GASB requires that general appropriations from the Commonwealth and non-capital gifts be shown as cash flows from non-capital financing activities. This section reflects the cash received and spending for items other than operating, investing, and capital financing purposes.

Net Cash Used by Capital Financing Activities, the third section, presents cash used for the acquisition and construction of capital and related items. Included in cash flows from capital financing activities are all plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowment.

Net Cash Provided by Investing Activities, the fourth section, reflects interest on investments and net proceeds from sales and maturities of investments.

Net Increase in Cash, the last section, reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Major sources of cash for the university included state appropriations (\$38,099,493), student tuition and fees (\$22,075,942), auxiliary enterprise revenues (\$32,035,434), grants and contracts (\$9,668,202), and capital appropriations and gifts (\$10,784,853). Major uses of cash were employee compensation and benefits (\$59,892,821), operating expenses (\$32,105,815), scholarship and fellowship payments (\$3,670,226), and the purchase of capital assets (\$10,176,117).

ECONOMIC OUTLOOK

The revenue shortfalls projected by the Commonwealth of Virginia resulted in general fund reductions for state agencies. The University absorbed reductions for the 2002-2004 biennium in several areas of its budget, with general fund reductions for all areas totaling \$5,700,000 for fiscal year 2003. An additional general fund reduction of \$1,900,000 will be incurred in fiscal year 2004 bringing total reductions for fiscal year 2004 to \$7,600,000.

The University was authorized to increase tuition to offset a portion of these reductions. Tuition for Fall 2002 was increased by nine percent for all students. Since the University is required to establish a balanced budget for each fiscal year, budget savings strategies were implemented and budget reductions were assigned to its academic and support units. These strategies included layoffs or retirements of filled positions comprising 36 instructional faculty, 8 administrative faculty, and 15 classified positions. Overall, the University has lost more than nineteen percent of its general fund operating support for fiscal year 2004, as compared to the fiscal year 2002 general fund appropriations.

Given that general fund appropriations represent more than one-third of the support for the University's total operating expenses, these reductions are substantial. Management has developed strategic plans that cut administrative costs, eliminate selected activities, reorganize units and programs thus creating efficiencies and maximizing revenues while attempting to minimize the impact on the University's core mission of instruction.

General fund reductions will be partially offset by further increases in tuition and fee revenues. A midyear tuition increase was implemented for Spring 2003 semester and a nine percent increase was implemented for Fall 2003 semester. Despite these tuition and fee increases, the University remains competitive when compared to other public institutions in its national peer group and one of the lowest when compared to other public institutions within the Commonwealth of Virginia.

Uncertainty remains in regards to the extent the Commonwealth of Virginia will need to implement additional measures to balance the budget for 2002-2004. As a result, it is unclear to what extent, if any, institutions of higher education will be further impacted in the 2004-2006 biennium.

The University's overall financial position remains strong. Even with the general fund reductions, revenue shortfalls, and economic uncertainty, the University generated an overall increase in net assets during fiscal year 2003. Management will continue to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues.

FINANCIAL STATEMENTS

RADFORD UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2003

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 18,314,844
Short-term investments (Note 2)	2,667,220
Accounts receivable (Net of allowance for doubtful accounts of \$173,526) (Note 3)	3,211,407
Due from the Commonwealth (Note 7)	97,540
Inventory	348,077
Notes receivable (Net of allowance for doubtful accounts of \$4,164)	24,126
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Total current assets	24,663,214
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Noncurrent assets:	
Restricted cash and cash equivalents (Note 2)	24,552,193
Notes receivable (Net of allowance for doubtful accounts of \$310,015)	3,343,547
Nondepreciable capital assets (Note 4)	29,328,898
Depreciable capital assets (Note 4)	46,430,818
	<hr/>
Total noncurrent assets	103,655,456
	<hr/>
Total assets	128,318,670
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LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses (Note 5)	11,162,268
Deferred revenue	2,945,265
Obligations under securities lending	2,667,220
Deposits held in custody for others	217,106
Long-term liabilities - current portion (Note 6)	2,165,743
Advance from the Treasurer of Virginia	20,000
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Total current liabilities	19,177,602
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Noncurrent liabilities (Note 6)	4,633,189
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Total liabilities	23,810,791
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NET ASSETS	
Invested in capital assets, net of related debt	75,374,276
Restricted for:	
Expendable:	
Scholarships and fellowships	2,690
Instruction and research	679,957
Capital projects	21,241,461
Loans	264,233
Unrestricted	6,945,262
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Total net assets	\$ 104,507,879
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The accompanying notes to financial statements are an integral part of this statement.

RADFORD UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$3,726,153)	\$ 20,937,739
Federal grants and contracts	9,070,973
State grants and contracts	285,686
Nongovernmental grants and contracts	420,268
Auxiliary enterprises (net of scholarship allowances of \$4,351,351) (Note 8)	33,211,719
Other operating revenues	506,036
Total operating revenues	<u>64,432,421</u>
Operating expenses: (Note 9)	
Instruction	37,325,591
Research	166,867
Public Service	2,073,422
Academic support	6,633,218
Student services	3,352,714
Institutional support	9,155,997
Operation and maintenance - plant	5,308,246
Depreciation	4,651,448
Student aid	1,533,455
Auxiliary activities (Note 8)	30,430,250
Total operating expenses	<u>100,631,208</u>
Operating loss	<u>(36,198,787)</u>
Nonoperating revenues (expenses):	
State appropriations (Note 10)	38,099,493
Investment income	1,249,722
Interest on capital asset - related debt	(33,972)
Loss on disposal of plant assets	(227,746)
Transfers to the Commonwealth	(638,683)
Net nonoperating revenues	<u>38,448,814</u>
Income before other revenues, expenses, gains or losses	<u>2,250,027</u>
Capital appropriations	5,459,670
Capital gifts	831,389
Total other revenues	<u>6,291,059</u>
Increase in net assets	8,541,086
Net assets - beginning of year, as restated (Note 1)	<u>95,966,793</u>
Net assets - end of year	<u><u>\$ 104,507,879</u></u>

The accompanying notes to financial statements are an integral part of this statement.

RADFORD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Student tuition and fees	\$ 22,075,942
Grants and contracts	9,668,202
Auxiliary enterprises	32,035,434
Other receipts	506,188
Payments for salaries, wages and fringe benefits	(59,892,821)
Payments for services and supplies	(24,963,592)
Payments for utilities	(1,529,928)
Payments for scholarships and fellowships	(3,670,226)
Payments for noncapitalized plant improvements and equipment	(5,612,295)
Loans issued to students	(1,084,751)
Collections of loans from students	904,280
Other receipts (payments)	(876,104)
	<hr/>
Net cash used by operating activities	(32,439,671)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	38,099,493
Non-general fund appropriation reductions	(638,683)
Federal Loan Contribution	14,354
Federal Family Education Loans - receipts	24,937,223
Federal Family Education Loans - disbursements	(24,924,036)
Student organization agency transactions	(79,330)
	<hr/>
Net cash provided by noncapital financing activities	37,409,021

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Proceeds from capital appropriations available	4,493,794
Capital appropriations	5,459,670
Capital gifts	831,389
Purchase of capital assets	(10,176,117)
Principal paid on capital debt, leases and installments	(364,285)
Interest paid on capital debt, leases and installments	(33,972)
	<hr/>
Net cash used by capital financing activities	210,479

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale and maturities of investments	(239,406)
Interest on investments	1,249,722
	<hr/>
Net cash provided by investing activities	1,010,316

Net increase in cash	6,190,145
Cash and cash equivalents - beginning of the year	<hr/> 36,676,892
Cash and cash equivalents - end of the year	<hr/> <hr/> \$ 42,867,037

RADFORD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

RECONCILIATION OF NET OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:

Operating loss	\$ (36,198,787)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	4,651,448
Changes in assets and liabilities:	
Receivables, net	(1,360,695)
Due from the Commonwealth	173,702
Inventory	179,874
Notes receivable, net	(180,471)
Accounts payable and accrued expenses	84,414
Deferred revenue	337,784
Accrued compensated absences	(127,092)
Federal loan programs contributions refundable	152
	<u>\$ (32,439,671)</u>

NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL
AND RELATED FINANCING TRANSACTIONS

Principal and interest on capital lease debt paid by State agency on behalf of the University	\$ 130,569
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The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

RADFORD UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Radford University (the University) is a comprehensive university that is part of the Commonwealth of Virginia's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth of Virginia which includes all agencies, higher education institutions, boards, commissions and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The University has no component units, as defined by the Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*; however, the University does have a related party corporation whose financial condition is stated in Note 11. The organization is a separate legal entity from Radford University and the University exercises no control over them. For these reasons the University's related party is not included in these financial statements.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*.

C. Basis of Accounting

The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

D. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the statement of revenues, expenses, and changes in net assets.

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the University as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Library materials are valued using actual costs for library acquisitions. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	40 years
Other improvements and infrastructure	20 years
Equipment	2-25 years
Library materials	10 years

F. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market, and consist primarily of expendable supplies held for consumption. On July 1, 2002, the University contracted with Chartwells, Inc. to manage dining operations. The contract included sale of existing dining services' inventory.

G. Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital and other noncurrent assets, are classified as noncurrent assets in the Statement of Net Assets.

H. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the period after June 30, 2003.

I. Accrued Compensated Absences

The amount of leave earned but not taken by non-faculty salaried employees is recorded as a liability on the balance sheet. The amount reflects, as of June 30, 2003 all unused vacation leave, sabbatical leave and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay-out policy. The applicable share of employer related taxes payable on the eventual termination payments is also included.

J. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study and Perkins Loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

K. Net Assets

GASB Statement 34 requires that the statement of net assets report the difference between assets and liabilities as net assets. Net assets are classified as invested in capital assets, net of related debt; restricted; and unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as "restricted" when constraints on the net asset use are either externally imposed by creditors, grantors, or contributors; or imposed by law. Unrestricted net assets consist of net assets that do not meet the definitions above.

Net assets reported as of the beginning of the year were restated as follows:

Net assets reported at June 30, 2002	\$100,413,234
Fully depreciated equipment previously disposed	(4,446,441)
Net assets – beginning of year as restated	<u>\$ 95,966,793</u>

L. Revenue Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship allowances, and (3) federal, state, and nongovernmental grants and contracts.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and other revenue sources that are defined as nonoperating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable*

Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB Statement 34, such as state appropriations and investment and interest income.

M. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2003.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia, except for cash held in foreign banks. These amounts are insured in accordance with the banking regulations of the respective countries where the funds are maintained. In accordance with the GASB Statement 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits and temporary investments with original maturities of three months or less.

Investments

The Board of Visitors established the University's investment policy. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument at maturity. The University's investments are in investment pools held by the Treasurer of Virginia, and therefore are not categorized as to level of credit risk.

As of June 30, 2003:

Cash and cash equivalents:

Cash on hand and deposited with financial institutions	\$ (476,984)
Money market account	2,216,000
Cash with the Treasurer	<u>41,128,021</u>

Total	<u>\$42,867,037</u>
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Investments:

Collateral held for securities lending	<u>\$ 2,667,220</u>
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Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2003:

Student tuition and fees	\$ 581,380
Auxiliary enterprises	1,171,921
Unreimbursed Commonwealth expenditures	899,342
Federal, state, and nongovernmental grants	660,900
Other activities	<u>71,390</u>
Total accounts receivable	3,384,933
Less: allowance for doubtful accounts	<u>173,526</u>
Net accounts receivable	<u>\$ 3,211,407</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2003 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 4,641,642	\$ -	\$ -	\$ 4,641,642
Construction in progress	<u>15,762,648</u>	<u>9,085,786</u>	<u>161,178</u>	<u>24,687,256</u>
Total Nondepreciable Capital Assets	<u>20,404,290</u>	<u>9,085,786</u>	<u>161,178</u>	<u>29,328,898</u>
Depreciable Capital Assets:				
Buildings	91,312,050	161,178	302,345	91,170,883
Infrastructure	20,007,093	293,541	-	20,300,634
Equipment	13,342,354	1,485,409	340,893	14,486,870
Other Improvements	4,318,744	-	-	4,318,744
Library Materials	<u>13,076,632</u>	<u>832,047</u>	<u>100,804</u>	<u>13,807,875</u>
Total Depreciable Capital Assets	<u>142,056,873</u>	<u>2,772,175</u>	<u>744,042</u>	<u>144,085,006</u>

Less Accumulated Depreciation For:

Buildings	58,716,549	1,642,314	91,748	60,267,115
Infrastructure	14,717,202	475,902	-	15,193,104
Equipment	9,007,713	1,517,846	315,986	10,209,573
Other Improvements	2,569,002	215,789	-	2,784,791
Library Materials	<u>8,500,812</u>	<u>799,597</u>	<u>100,804</u>	<u>9,199,605</u>
Total Accumulated Depreciation	<u>93,511,278</u>	<u>4,651,448</u>	<u>508,538</u>	<u>97,654,188</u>
Depreciable Capital Assets, net	<u>48,545,595</u>	<u>(1,879,273)</u>	<u>235,504</u>	<u>46,430,818</u>
Total Capital Assets, net	<u>\$ 68,949,885</u>	<u>\$ 7,206,513</u>	<u>\$ 396,682</u>	<u>\$75,759,716</u>

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2003:

Employee salaries, wages, and fringe benefits payable	\$ 6,045,803
Vendors and suppliers accounts payable	3,316,353
Capital projects accounts payable	<u>1,800,112</u>
Net accounts payable and accrued expenses	<u>\$ 11,162,268</u>

6. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7), notes payable, and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2003 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term Debt:					
General Obligation Bonds	\$ 505,535	\$ -	\$ 132,863	\$ 372,672	\$ 118,224
Capital Leases	<u>223,099</u>	<u>-</u>	<u>223,099</u>	<u>-</u>	<u>-</u>
Total Long-term Debt	<u>728,634</u>	<u>-</u>	<u>355,962</u>	<u>372,672</u>	<u>118,224</u>
Notes Payable:					
Installment Purchases	<u>17,878</u>	<u>-</u>	<u>5,108</u>	<u>12,770</u>	<u>5,108</u>
Total Notes Payable	<u>17,878</u>	<u>-</u>	<u>5,108</u>	<u>12,770</u>	<u>5,108</u>
Other Liabilities:					
Other Capital Leases	3,215	-	3,215	-	-
Accrued Compensated Absences	3,147,292	3,309,536	3,436,628	3,020,200	2,042,411
Federal Loan Program Contributions	<u>3,378,936</u>	<u>14,354</u>	<u>-</u>	<u>3,393,290</u>	<u>-</u>
Total Other Liabilities	<u>6,529,443</u>	<u>3,323,890</u>	<u>3,439,843</u>	<u>6,413,490</u>	<u>2,042,411</u>
Total Long-term Liabilities	<u>\$ 7,275,955</u>	<u>\$ 3,323,890</u>	<u>\$ 3,800,913</u>	<u>\$ 6,798,932</u>	<u>\$ 2,165,743</u>

7. LONG-TERM DEBT

The University has issued one category of bonds pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

Description	Interest Rate	Maturity	Balance at June 30, 2003
General Obligation Revenue Bonds:			
Norwood Hall Dormitory:			
Series 2003A	4.30% - 4.75%	2006	\$372,672

Bonds mature as follows:

	<u>Principal</u>	<u>Interest</u>
2004	\$ 118,224	\$ 16,292
2005	122,904	13,337
2006	<u>131,544</u>	<u>6,577</u>
Total	<u>\$ 372,672</u>	<u>\$ 36,206</u>

Bond Defeasance

On June 4, 2003, the Commonwealth issued general obligation bonds (Refunding Bonds), Series 2003A, to refund all of the University's outstanding Section 9(c) revenue bonds. The bonds were issued to provide debt service savings by advance refunding the Norwood Hall Dormitory Renovation Series 1993B bonds. The proceeds of the new bonds were placed in an irrevocable escrow account and used to retire the entire outstanding balance of the Series 1993B bonds.

Fiscal Year 2003 Defeasance	True Interest Cost	Refunding Bonds Issued	Bonds Refunded	Reduction in Debt Service	Economic Gain
Norwood Hall Dormitory:					
Series 1993B	2.705%	\$372,672	\$387,610	\$14,938	\$14,995

Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth of Virginia on behalf of the University issued bonds which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased bonds and not included in the University's financial statements. For the year ended June 30, 2003, the remaining balance of bonds payable considered defeased in substance totaled \$387,610.

Equipment Trust Fund Program

The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The Virginia College Building Authority (VCBA) manages the program. The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the University. For fiscal years 1999 and following, financing agreements for ETF were changed so that the University now owns the equipment from the date of purchase.

The Statement of Net Assets line "Due from the Commonwealth" totaling \$97,540 at June 30, 2003 represents equipment purchased by the University that was not reimbursed by the VCBA at year-end.

8. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following at June 30, 2003. The University used auxiliary revenues to pay debt service and capital improvements of \$141,300 and \$1,087,500, respectively. Those balances are not included in the auxiliary operating expenses below.

Revenues:

Room contracts, net of scholarship allowances of \$1,325,518	\$ 7,949,443
Dining service contracts, net of scholarship allowances of \$1,045,229	7,799,523
Comprehensive fee, net of scholarship allowances of \$1,980,604	11,460,692
Other student fees and sales and services	<u>6,002,061</u>
Total auxiliary enterprises revenues	<u>\$ 33,211,719</u>

Expenses:

Residential facilities	\$ 6,166,755
Dining operations	10,434,787
Athletics	3,048,567
Other auxiliary activities	<u>10,780,141</u>
Total auxiliary activities expenses	<u>\$ 30,430,250</u>

9. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses by both function, as listed in the Statement of Revenues, Expenses, and Changes in Net Assets, and by natural classification, which is the basis for amounts in the Statement of Cash Flows.

	<u>Compensation and Benefits</u>	<u>Services and Supplies</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Plant and Equipment</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 33,738,805	\$ 1,686,302	\$ 569,405	\$ -	\$ 1,331,079	\$ -	\$ 37,325,591
Research	139,531	8,603	-	-	18,733	-	166,867
Public Service	1,009,480	1,033,170	-	-	30,772	-	2,073,422
Academic Support	4,462,105	673,887	267,130	-	1,230,096	-	6,633,218
Student Services	2,482,669	528,084	258,450	-	83,511	-	3,352,714
Institutional Support	6,527,559	1,007,680	127,024	-	1,493,734	-	9,155,997
Operation and Maintenance of Plant	3,062,535	1,611,634	2,977	453,734	177,366	-	5,308,246
Depreciation Expense	-	-	-	-	-	4,651,448	4,651,448
Scholarship and Related Expenses	-	-	1,533,455	-	-	-	1,533,455
Auxiliary Activities	<u>7,656,880</u>	<u>19,364,685</u>	<u>911,785</u>	<u>1,076,194</u>	<u>1,420,706</u>	<u>-</u>	<u>30,430,250</u>
Total	<u>\$ 59,079,564</u>	<u>\$25,914,045</u>	<u>\$ 3,670,226</u>	<u>\$ 1,529,928</u>	<u>\$ 5,785,997</u>	<u>\$ 4,651,448</u>	<u>\$100,631,208</u>

10. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

The following is a summary of state appropriations received by the University including all supplemental appropriations and reversions:

Original legislative appropriation per Chapter 899:

Educational and general programs	\$ 36,756,203
Student financial assistance	3,644,219

Supplemental adjustments:

Virtual Library of Virginia (VIVA) allocation	10,894
Western Virginia Public Education Consortium	63,750
Eminent scholar	47,181

Central Appropriation Transfers:

Salary increases and regrades	886,385
Health insurance premium increase	655,078
VSDP rate change	34,120
Retirement plan adjustment	(602,611)

Retiree health credit and group life adjustments	(215,721)
Other miscellaneous adjustments	(39,305)
Mandatory General Fund Appropriation reductions	(2,984,514)
Voluntary General Fund Appropriation reduction	(150,000)
Reversion to the General Fund of the Commonwealth	<u>(6,186)</u>
Adjusted appropriation	<u>\$ 38,099,493</u>

11. AFFILIATED FOUNDATION

The financial statements do not include the assets, liabilities and net assets of the Radford University Foundation, Inc. The purpose of this organization is to operate for the benefit of the University. The Foundation is a separately incorporated entity and the related financial statements are examined by other auditors. The following is an unaudited summary of the financial condition of the Foundation as of June 30, 2003:

Assets:	
Cash and Investments	\$ 19,628,269
Other Assets	<u>13,665,141</u>
Total Assets	<u>\$ 33,293,410</u>
Liabilities and Net Assets:	
Liabilities	\$ 4,228,972
Net Assets	<u>29,064,468</u>
Total Liabilities and Net Assets	<u>\$ 33,293,410</u>

The aggregate revenues and expenditures of the Foundation, determined as if in consolidation with the University were \$7,457,850 and \$3,632,484, respectively for the year ended June 30, 2003.

During the fiscal year ended June 30, 2003, the Foundation transferred \$773,358 to the University for academic scholarships. In addition, the Foundation directly expended \$231,663 on behalf of intercollegiate athletic programs of the University.

12. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations Are Component Units*, issued May 2002, will be effective for the fiscal year ending June 30, 2004. This Statement provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, it requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of the University. As a result, where in the past the University presented summary financial information of certain of its foundations in the notes to the financial statements, the University will be required under GASB Statement 39 to include selected foundations in the body of its financial statements. The University has determined that the Radford University Foundation, Inc. should be included as a component unit.

13. COMMITMENTS

At June 30, 2003, the University was a party to construction and other contracts totaling approximately \$18,962,153 of which \$14,922,308 has been incurred.

The University is committed under various operating leases for land, buildings, and equipment. Operating leases do not give rise to property rights or lease obligations and, therefore, the results of the lease agreements are not reflected in the financial statements. Rental expense was approximately \$784,201 for the year ended June 30, 2003.

The University has, as of June 30, 2003, the following future minimum rental payments due under the above leases:

<u>Year Ending June 30</u>	<u>Operating Lease Obligation</u>
2004	\$ 360,004
2005	287,099
2006	243,667
2007	<u>13,749</u>
Total	<u>\$ 904,519</u>

14. RETIREMENT PLANS

A. Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2003. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled \$4,133,731 for the year ended June 30, 2003. These contributions included the 5 percent employee contribution assumed by the employer. The University's total payroll was approximately \$51,445,295 for the year ended June 30, 2003.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers rather than the VRS. The five different providers are TIAA/CREF Insurance Companies, Fidelity Investments Tax-Exempt Services and MetLife Resources, Great-West Life Assurance Co., T. Rowe Price Associates and VALIC. This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's (5.4 percent) and employee's (5.0 percent) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately \$1,308,869 for year ended June 30, 2003. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$12,585,275 for fiscal year 2003.

15. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance program which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of State service and participate in the State's health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

16. CONTINGENCIES

Grants and Contracts

The University has received grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2003, the University estimates that no material liabilities will result from such audits or questions.

17. RISK MANAGEMENT AND EMPLOYEE HEALTHCARE PLANS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care plan is administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes worker's

compensation, property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

SUPPLEMENTARY INFORMATION

RADFORD UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2003

	Dining Services	Residential Facilities	Health Services	Phone Services	Student Center
Revenues:					
Student fees	\$ 7,799,523	\$ 7,949,443	\$ 1,142,826	\$ 377,846	\$ 1,190,117
Sales and services	2,194,241	71,570	-	490,846	29,408
Parking fines and fees	-	-	-	-	-
Investment income	-	-	-	-	-
Total revenues	9,993,764	8,021,013	1,142,826	868,692	1,219,525
Expenses of operation:					
Compensation and benefits	201,623	2,181,819	282,095	154,225	685,704
Services and supplies	10,025,943	2,357,300	834,532	602,221	217,859
Scholarships and fellowships	-	625,868	-	-	-
Utilities	204,347	661,695	-	246	51,037
Plant and equipment	2,874	340,063	565	1,041	45,970
Total expenses of operation	10,434,787	6,166,745	1,117,192	757,733	1,000,571
Excess (deficiency) of revenues over expenses of operation before transfers	(441,023)	1,854,268	25,634	110,959	218,954
Operating transfers:					
Mandatory:					
Debt service	-	(141,300)	-	-	-
Nonmandatory transfers:					
Renewals and replacements	-	-	-	-	-
Restricted	-	121	3,770	-	-
Net increase (decrease) for the year	(441,023)	1,713,090	29,404	110,959	218,954
Fund balance at beginning of year	404,683	1,227,346	244,677	379,649	316,378
Fund balance at end of year	\$ (36,340)	\$ 2,940,436	\$ 274,081	\$ 490,608	\$ 535,332

Building Maintenance	Athletics Committee	Student Activities	Other Services	Total
\$ 4,672,640	\$ 3,416,165	\$ 661,099	\$ -	\$ 27,209,658
320,378	395,523	186,168	1,674,123	5,362,258
-	-	-	588,237	588,237
-	-	-	51,566	51,566
4,993,018	3,811,688	847,267	2,313,926	33,211,719
927,976	1,384,392	125,259	1,713,787	7,656,880
1,363,002	1,334,723	700,344	1,928,761	19,364,684
-	278,087	-	7,830	911,785
121,197	-	-	37,672	1,076,194
228,447	51,365	24,582	725,798	1,420,706
2,640,622	3,048,567	850,185	4,413,848	30,430,250
2,352,396	763,121	(2,918)	(2,099,923)	2,781,469
-	-	-	-	(141,300)
-	-	-	1,087,500	1,087,500
-	-	-	9,688	13,579
2,352,396	763,121	(2,918)	(1,002,735)	3,741,248
183,480	706,519	306,997	496,189	4,265,918
\$ 2,535,876	\$ 1,469,640	\$ 304,079	\$ (506,546)	\$ 8,007,166

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Radford, Virginia

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